AIG® General Insurance

AIG General Insurance (Malaysia) Berhad

(Incorporated in Malaysia)

(795492-W)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD

FROM 13 NOVEMBER 2007 *(Date Of Incorporation)*

TO 31 DECEMBER 2008

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DIRECTORS' REPORT

The Directors have pleasure in submitting their first report together with the audited financial statements of the Company for the financial period from 13 November 2007 (date of incorporation) to 31 December 2008.

PRINCIPAL ACTIVITY

Pursuant to Section 217 (b) of the Insurance Act, 1996, American Home Assurance Company, the Company's holding company, transferred its operations in Malaysia to the Company with effect from 1 June 2008. Following this, the Company commenced its principal activity of underwriting all classes of general insurance business.

There has been no significant change in the nature of this activity during the financial period.

FINANCIAL RESULTS	**RM**
Net profit for the financial period	36,419,454

DIVIDENDS

The Directors do not recommend any payment of dividend for the financial period from 13 November 2007 (date of incorporation) to 31 December 2008.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial period.

PROVISION FOR OUTSTANDING CLAIMS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including reserve for Incurred But Not Reported ("IBNR") claims.

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors of the Company are not aware of any circumstances that would render the amount written off for bad debts or the amounts of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ensure that any current assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Company which has arisen since the end of the financial period which secure the liabilities of any other person, or

(b) any contingent liability in respect of the Company which has arisen since the end of the financial period.

No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company for the financial period were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial period in which this report is made.

ISSUE OF SHARES

The Company was incorporated with an authorised share capital of RM500,000,000 consisting of 500,000,000 ordinary shares of RM1.00 each and an issued and paid-up share capital of RM2 as subscriber shares.

On 1 June 2008, the Company allotted and issued 99,999,998 new ordinary shares of RM1.00 each at par value as part of the consideration for the acquisition of business from the holding company to meet the minimum issued and paid-up share capital of RM100,000,000 as required under Section 18 of the Insurance Act 1996.

On 26 June 2008, the Company allotted and issued 210,800,000 new ordinary shares of RM1.00 each at par value as the remaining consideration for the acquisition of business from the holding company.

The new ordinary shares issued during the period ranked pari passu in all respects with the existing ordinary shares of the Company.

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

(a) Transfer of Business from Holding Company

In 2007, the holding company, American Home Assurance Company ("AHA") had applied to Bank Negara Malaysia ("BNM") to localise its Malaysian Branch ("AHAM") to a locally incorporated public company pursuant to Sections 14 and 217(b) of the Insurance Act, 1996, which require all branches of foreign insurers, other than professional re-insurers, to transfer their property, business, and liabilities to a public company incorporated under the Companies Act, 1965 in so far as they relate to their insurance business in Malaysia.

A locally incorporated company, AIG General Insurance (Malaysia) Berhad ("the Company"), was then incorporated on 13 November 2007. On 13 February 2008, the Company entered into a conditional sale of business agreement with AHA, the holding company, to transfer the entire General Insurance Business ("the Business") of AHAM to the Company, as a going concern, based on the net book value ("NBV") of AHAM's net assets as at the completion date. The transfer of business was approved by BNM, Securities Commission and the Minister of Finance.

On 1 June 2008, the Business was transferred to the Company at the NBV of AHAM's net assets as at 31 May 2008. On the same day, the Company obtained its general insurance licence and commenced its general insurance business.

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD (CONTINUED)

(b) Basis of Transfer

As the transfer of business is driven by regulatory reason and does not result in bringing separate businesses into one reporting entity, it does not meet the definition of a business combination under FRS 3 Business Combination. Therefore, the transfer of business is regarded as an internal reorganisation.

Since there is no specific guidance in FRS for internal reorganisation transactions, as such, the transfer of business from the holding company has been accounted for as a business combination under common control using the predecessor method of accounting.

The predecessor method of accounting requires the financial statements to be prepared using predecessor's, i.e book values without any step up to fair value. The difference between any consideration given and the aggregate book value of the assets and liabilities (as of the date of transaction) of the acquired entity is recorded as an adjustment to equity. No goodwill should be created by the transaction.

The business transfer consideration was satisfied by the issuance of 310,800,000 new ordinary shares of RM1.00 each at par and amount payable to holding company of RM 2,415,851.

The assets and liabilities arising from the business transfer are as follows:

	RM
Property, plant and equipment	9,160,103
Intangible assets	224,446
Loans	4,690,505
Investments	449,989,861
Fixed deposits/money market	202,093,735
Cash and bank balance	12,299,870
Receivables	79,539,589
Deferred tax assets	3,925,680
Current tax assets	14,969,170
Provision for outstanding claims	(201,080,494)
Payables	(86,297,228)
Unearned premium reserves	(176,299,388)
	313,215,849

Purchase consideration:

- 310,800,000 new ordinary shares of RM 1.00 each of the Company issued at par	310,799,998
- Amount payable to holding company	2,415,851
	313,215,849

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS IN SECURITIES

The Directors who have held office since the date of incorporation of the Company until the date of this report are :

Brad Michael Bennett	(appointed on 26 November 2007, resigned on 13 January 2009)
Soo Wai Har	(appointed on 26 November 2007)
Leslie John Mouat	(appointed on 9 May 2008)
Pamela Yeo Suan Imm	(appointed on 9 May 2008)
Chiang Khai Fuat	(appointed on 9 May 2008)
Dato' Thomas Mun Lung Lee	(appointed on 9 May 2008)
Dato Wan Ismail Bin Abd Rahman	(appointed on 9 May 2008, resigned on 10 September 2008)
Robert George Ryan	(appointed on 13 January 2009)
Mohd Daruis bin Zainuddin	(appointed on 12 February 2009)
Ian Sedgley @ Imran	(First Director, resigned on 26 November 2007)
Tay Weng Hwee	(First Director, resigned on 26 November 2007)

DIRECTORS' BENEFIT

During and at the financial end of the financial period, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the Employee Share Option Scheme of American International Group, Inc, the ultimate holding company.

Since the date of incorporation of the Company, no Director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors and professional fees received by a Director as shown in Note 20 to the financial statements or the fixed salary of a full-time employee of the Company and its related corporations) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFIT (CONTINUED)

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial period in shares and options over shares in its ultimate holding company during the financial period were as follows:

	Number of ordinary shares of USD2.50 each			
American International Group Inc. Direct Interest	**As at the date of appointment**	**Bought/ Vested**	**Sold**	**As at 31.12.2008**
Leslie John Mouat	53,799	0	0	53,799
Soo Wai Har	412	100	0	512
Pamela Yeo Suan Imm	169	0	0	169

	Number of restricted stock units over ordinary shares of USD2.50 each			
American International Group Inc.	**As at the date of appointment**	**Granted**	**Vested**	**As at 31.12.2008**
Brad Michael Bennett	12,234	0	0	12,234
Soo Wai Har	750	374	100	1,024
Pamela Yeo Suan Imm	200	498	0	698
Chiang Khai Fuat	11,762	0	0	11,762

	Number of stock options over ordinary shares of USD2.50 each			
American International Group Inc.	**As at the date of appointment**	**Granted**	**Lapsed**	**As at 31.12.2008**
Brad Michael Bennett	15,000	0	0	15,000
Leslie John Mouat	22,256	0	0	22,256
Soo Wai Har	800	0	0	800
Chiang Khai Fuat	6,462	0	562	5,900

Other than as disclosed above, none of the Directors in office at the end of the financial period had any interest in shares in the Company or shares, options over shares and debentures of its related corporations during the financial period.

DIRECTORS' REPORT (CONTINUED)

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The immediate holding company is American Home Assurance Company, a company incorporated in the State of New York and the Directors regard American International Group, Inc, a company incorporated in the State of Delaware, as the ultimate holding company.

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's ("BNM") Prudential Framework of Corporate Governance (JPI/GPI 25) (Consolidated) for insurers and its best practice applications at all times.

(A) BOARD RESPONSIBILITY AND OVERSIGHT

The Board of Directors ("the Board") is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Insurance Act, 1996, Insurance Regulations 1996 ("the Regulations") and BNM Guidelines on Minimum Standards for Prudential Management of Insurers (JPI/GPI 1) (Consolidated) and Prudential Framework of Corporate Governance (JPI/GPI 25) (Consolidated) and other directives, in addition to adopting other best practices on corporate governance.

The Board has an overall responsibility to lead the Company, include setting the strategic future direction, review viability of the corporate objective and overseeing the conduct and performance of business.

The Board comprises 2 Independent Non-Executive Directors, 3 Non-Independent Non-Executive Directors and 2 Executive Directors. The Board is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

There were 3 meetings held during the 7 months' period since 1 June 2008 which the Company became a locally incorporated licensed insurer. All Directors in office at the end financial period complied with the 75% minimum attendance requirement at such meeting.

The details of attendance of each Director at Board meetings held during the financial period are set out below:

Name of Directors (Status of Directorship)		**Total Meeting Attended**
Brad Michael Bennett	(Chief Executive Director, resigned on 13 January 2009)	3/3
Soo Wai Har	(Non-Independent Executive Director)	3/3
Leslie John Mouat	(Non-Independent Non-Executive Director)	2/3
Pamela Yeo Suan Imm	(Non-Independent Non-Executive Director)	3/3
Chiang Khai Fuat	(Non-Independent Non-Executive Director)	3/3
Dato Wan Ismail Bin Abd Rahman	(Independent Non-Executive Director, resigned on 10 September 2008)	1/1
Dato' Thomas Mun Lung Lee	(Independent Non-Executive Director)	3/3

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

To support sound corporate governance and processes, the Board formed various Board Committees namely Nominating Committee, Remuneration Committee, Risk Management Committee and Audit Committee in accordance with the requirements of GPI/JPI 1. The guideline requires full compliance with the Terms of Reference of these Committees. The Board had adopted the Terms of Reference of these Committees.

The roles and members of the above Committees are as provided below.

Nominating Committee

The Nominating Committee ("NC") comprises 5 members, appointed from the Board.

The current members are as follows :

Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Robert George Ryan	Member (Executive)
Leslie John Mouat	Member (Non-Independent Non-Executive)
Chiang Khai Fuat	Member (Non-Independent Non-Executive)

The objective of the NC is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officer ("CEO") and key senior officers ("KSOs") and to assess the effectiveness of individual Directors, the Board as a whole (including various committees of the Board), CEO and KSOs on an on-going basis.

The principal duties and responsibilities of NC are :

(a) establishing minimum requirements for the Board and the CEO to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between executive, non-executive and independent Directors, and other core competencies required;

(b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the CEO position. This includes assessing Directors and the CEO proposed for reappointment before an application for approval submitted to BNM;

(c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO. The assessments should also include ascertaining that the Director is not disqualified under the relevant law and fulfill the 'fit and proper' criteria;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Nominating Committee (continued)

(d) recommending to the Board the removal of a Director or CEO if he is ineffective, errant or negligent in discharging his responsibilities;

(e) ensuring that all Directors undergo appropriate induction programmes and receive continuous training; and

(f) overseeing the appointment, management succession planning and performance evaluation of KSO, and recommending to the Board the removal of KSOs if they are ineffective, errant and negligent in discharging their responsibilities.

There was no NC meeting held during the financial period ended 31 December 2008.

Remuneration Committee

The Remuneration Committee ("RC") comprises 5 Non-Executive Directors, appointed from the Board.

The current members are as follows :

Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Leslie John Mouat	Member (Non-Independent Non-Executive)
Chiang Khai Fuat	Member (Non-Independent Non-Executive)
Pamela Yeo Suan Imm	Member (Non-Independent Non-Executive)

The objective of the RC is to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and KSOs and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

The principal duties and responsibilities of RC are :

(a) recommending a framework for the remuneration of Directors, the CEO and KSOs. The remuneration policy should :-

- be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- reflect the experience and level of responsibility borne by individual Directors, the CEO and KSOs;
- be sufficient to attract and retain Directors, CEO and KSOs of calibre needed to manage the company successfully; and
- be balanced against the need to ensure that the funds of the insurers are not used to subsidise excessive remuneration packages and should not create incentives for irresponsible behaviour or insider excesses.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Remuneration Committee (continued)

(b) recommending specific remuneration packages for Directors, CEO and KSOs. The remuneration packages should :-

- be based on objective considerations and approved by the full Board;
- take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Directors, CEO or KSOs concerned;
- not be decided by the exercise of sole discretion by any one individual or restricted group of individuals; and
- be competitive and consistent with the Company's culture, objectives and strategy.

There was no RC meeting held during the financial period ended 31 December 2008.

Risk Management Committee

The Risk Management Committee ("RMC") comprises 4 Non-Executive Directors, appointed from the Board.

The current members are as follows :

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Chiang Khai Fuat	Member (Non-Independent Non-Executive)
Pamela Yeo Suan Imm	Member (Non-Independent Non-Executive)

The objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management process is in place and functioning effectively.

The principal duties and responsibilities of RMC are :

(a) reviewing and recommending risk management strategies, policies and risk tolerance levels for the Board's approval;

(b) reviewing and assessing the adequacy of the risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Risk Management Committee (continued)

(c) ensuring that adequate infrastructure, resources and systems are in place for effective risk management; e.g. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities; and

(d) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

There was no RMC meeting held during the financial period ended 31 December 2008.

Audit Committee

The composition of the Audit Committee ("AC") is as follows :

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Pamela Yeo Suan Imm	Member (Non-Independent Non-Executive)

The primary objective of the AC is to ensure the integrity and transparency of the financial reporting process.

The principal duties and responsibilities of the AC are:

(a) To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their objectives;

(b) To review and concur the annual audit plan, audit charter and annual budget of the internal audit department and the appointment of the external auditors;

(c) To ensure that internal audit staff have free and unrestricted access to the Company's records, assets, personnel or processes relevant to and within the scope of the audits;

(d) To review various relationships between the external auditors and the Company or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the Company;

(e) To review with the external auditors that appropriate audit plans are in place and the scope of the audit plans reflect the terms of the engagement letter;

(f) To review with the external auditors the financial statements, audit reports, including reports to BNM and discuss the findings and issues arising from the external audit;

(g) To ensure that management's remediation efforts with respect to internal and external audit findings and recommendations are resolved effectively and in a timely manner.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Audit Committee (continued)

(h) To approve the provision of non-audit services by the external auditor and ensure that the level of provision of non-audit services is compatible with maintaining auditor independence;

(i) To review the Chairman's statement, interim financial reports, preliminary announcements and corporate governance disclosures in the Directors' Report;

(j) To review any related-party transactions and conflict of interest situations that may arise including any transaction, procedure or conduct that raises questions of management integrity;

(k) To ensure that the Company's accounts are prepared and published in a timely and accurate manner for regulatory, management and general reporting purposes; and

(l) To report to BNM annually, on the material weaknesses in the internal control environment and the measures taken to address those weaknesses.

The AC has the authority to investigate any matter within its terms of reference and has unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.

There was no AC meeting held during the financial period ended 31 December 2008.

(B) MANAGEMENT ACCOUNTABILITY

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the Directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Sections 54 and 55 of the Insurance Act, 1996.

The management meets all prescriptive requirements under this section, and has already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflict of interest, goal setting and the area of communication.

(C) CORPORATE INDEPENDENCE

All material related party transactions are conducted on terms that are comparable to normal commercial terms as specified under BNM Guidelines JPI/GPI 19 Related-Party Transactions and JPI/GPI 25 (Consolidated) Prudential Framework of Corporate Governance for Insurers. Related parties transactions and balances have been disclosed in the financial statements in compliance with the MASB Approved Accounting Standards in Malaysia for Entities other than Private Entities.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(D) INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which includes the setting of operational risk limits for all core activities. The Company has established internal controls which cover all levels of personnel that are capable of recognising and continually assessing material risks, including underwriting risk, reinsurance risk, investment risk, operational and legal risk, that could affect its performance and financial condition.

Continuous review and assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner.

(E) INTERNAL AUDIT

The internal audit function is provided by the ultimate holding company, AIG. While the Group Internal Audit ("GIA") reports directly to AIG's Audit Committee, it will assist the Company's Audit Committee in discharging its duties and responsibilities.

The main function of the GIA includes assessment of effectiveness and adequacy of internal controls, which includes an independent examination of controls and ensure corrective actions, where necessary, are taken in a timely manner.

(F) PUBLIC ACCOUNTABILITY

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company meets all prescriptive and best practice requirements under this section relating to unfair practices.

(G) FINANCIAL REPORTING

The Board has the overall responsibilities to ensure that accounting records are properly kept and that the Company's financial statements are prepared in accordance with MASB Approved Accounting Standards in Malaysia for Entities other than Private Entities. The Company meets all prescriptive requirements under this section relating to proper records, annual reports, public disclosure and statutory reporting. In addition, the Company also meets the best practice requirements relating to management reporting, where the key performance indicators are reported on a monthly basis.

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The external auditors, PricewaterhouseCoopers, retire and have expressed their willingness to accept re-appointment.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors.

Robert George Ryan
Director

Dato' Thomas Mun Lung Lee
Director

Kuala Lumpur
25 March 2009

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, **Robert George Ryan** and **Dato' Thomas Mun Lung Lee**, two of the Directors of **AIG General Insurance (Malaysia) Berhad**, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 20 to 57 are drawn up so as to show a true and fair view of the financial position of the Company as at 31 December 2008 and of its financial performance and cash flows for the financial period ended on that date in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities other than Private Entities.

Signed on behalf of the Board of Directors in accordance with a resolution passed on 25 March 2009.

Robert George Ryan
Director

Dato' Thomas Mun Lung Lee
Director

Kuala Lumpur

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Soo Wai Har, the Director primarily responsible for the financial management of **AIG General Insurance (Malaysia) Berhad**, do solemnly and sincerely declare that the financial statements for the financial period ended 31 December 2008 set out on pages 20 to 57 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

SOO WAI HAR

Subscribed and solemnly declared by the above named at Kuala Lumpur in the Federal Territory on 25 March 2009.

Before me,

Commissioner for oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF AIG GENERAL INSURANCE (MALAYSIA) BERHAD

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AIG General Insurance Berhad, which comprise the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the financial period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 20 to 57.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF AIG GENERAL INSURANCE (MALAYSIA) BERHAD (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 31 December 2008 and of its financial performance and cash flow for the financial period then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF : 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/10 (J))
Partner of the firm

Kuala Lumpur, Malaysia
25 March 2009

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 RM
ASSETS		
Property, plant and equipment	4	13,401,665
Intangible assets	5	161,859
Investments	6	727,689,056
Loans	7	4,074,829
Receivables	8	71,676,127
Deferred tax assets	9	5,311,817
Tax recoverable		3,998,370
Cash and bank balances		16,817,665
Total assets		843,131,388
LIABILITIES		
Provision for outstanding claims	10	249,963,588
Payables	11	78,559,260
		328,522,848
Unearned premium reserves	12	167,389,086
Total liabilities		495,911,934
SHAREHOLDER'S EQUITY		
Share capital	13	310,800,000
Retained earnings		36,419,454
Total shareholder's equity		347,219,454
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		843,131,388

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2008

	Note	2008 RM
Operating revenue	14	289,047,990
Surplus transferred from General Insurance Revenue Account		49,579,787
Profit before taxation		49,579,787
Taxation	17	(13,160,333)
Net profit for the financial period		36,419,454
Earnings per share (sen)	18	22

The accompanying notes form an integral part of these financial statements.

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2008

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium		50,998,878	92,319,436	5,794,340	120,609,612	269,722,266
Less: Reinsurance		(40,142,574)	(5,609,813)	(3,795,947)	(26,482,868)	(76,031,202)
Net premium		10,856,304	86,709,623	1,998,393	94,126,744	193,691,064
Add:						
Decrease in unearned premium reserves	12	2,924,353	769,438	212,384	5,004,127	8,910,302
Earned premium		13,780,657	87,479,061	2,210,777	99,130,871	202,601,366
Net claims incurred	19	(14,147,524)	(64,055,707)	633,270	(15,839,733)	(93,409,694)
Net commission		2,168,591	(8,927,356)	367,973	(15,553,499)	(21,944,291)
Underwriting surplus before management expenses		1,801,724	14,495,998	3,212,020	67,737,639	87,247,381
Management expenses	20					(58,273,791)
Underwriting surplus						28,973,590
Investment income	15					19,325,724
Other operating income - net	16					1,280,473
Surplus transferred to Income Statement						49,579,787

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2008

	Note	Issued and fully paid ordinary shares of RM 1 each		Distributable Retained earnings	Total
		Number of shares	Nominal value RM		RM
At date of incorporation		2	2	-	2
Net profit for the financial period		-	-	36,419,454	36,419,454
Issue of shares	13	310,799,998	310,799,998	-	310,799,998
At 31 December 2008		310,800,000	310,800,000	36,419,454	347,219,454

CASH FLOW STATEMENT

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2008

	Note	2008 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial period		36,419,454
Adjustments for:		
Property, plant and equipment		
- depreciation		1,167,125
- gain on disposal		(800)
Amortisation of intangible assets		62,587
Investment income		(19,325,724)
Allowance for diminution in value of investments		1,200,810
Gain on disposal of investments		(87,654)
Decrease in unearned premium reserves		(8,910,302)
Taxation		13,160,333
Bad debts written off		29,498
Unrealised foreign exchange gain		(184,843)
Increase in allowance for doubtful debts		1,966,096
		25,496,580
Increase in fixed deposits		(5,787,786)
Increase in provision for outstanding claims		48,883,094
Decrease in trade payables		(4,409,893)
Decrease in other payables		(5,743,919)
Decrease in loans		564,383
Decrease in trade receivables		9,276,420
Increase in other receivables		(1,038,447)
Interest income received		17,385,997
Dividend received		178,688
Proceeds from disposal of investments		15,189,157
Purchase of investments		(86,492,924)
Cash generated from operations		13,501,350
Tax paid		(3,575,670)
Net cash inflow from operating activities	21	9,925,680

CASH FLOW STATEMENT

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2008 (CONTINUED)

	Note	2008 RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment		800
Purchase of property, plant and equipment		(5,408,687)
Cash and cash equivalents of business acquired	25	12,299,870
Net cash inflow from investing activities	21	6,891,983
NET INCREASE IN CASH AND CASH EQUIVALENTS	21	16,817,663
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION	21	2
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	16,817,665
Cash and cash equivalents comprise:		
Cash and bank balances		16,817,665

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

Pursuant to Section 217 (b) of the Insurance Act, 1996, American Home Assurance Company, the Company's holding company, transferred its operations in Malaysia to the Company with effect from 1 June 2008. Following this, the Company commenced its principal activity of underwriting all classes of general insurance business.

There has been no significant change in the nature of this activity during the financial period.

The Company is a public limited liability company, incorporated on 13 November 2007 under the Companies Act 1965 and Insurance Act 1996, and is domiciled in Malaysia. The registered office is located at Level 29, Menara AIA, 99 Jalan Ampang, 50450 Kuala Lumpur and the principal place of business of the Company is located at Wisma AIG, 99 Jalan Ampang, 50450 Kuala Lumpur.

The immediate holding company is American Home Assurance Company, a company incorporated in the State of New York and the Directors regard the ultimate holding company as American International Group, Inc, a company incorporated in the State of Delaware.

The financial statements have been authorised for issue by the Board of Directors on 25 March 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements, unless otherwise stated:

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with the Financial Reporting Standards, the Malaysia Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities other than Private Entities, the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines and Circulars issued by Bank Negara Malaysia ("BNM") in all material aspects.

The financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards, amendments to published standards and interpretations to existing standards that are relevant and applicable to the Company but not yet effective and not early adopted by the Company

The new standards and IC Interpretation that are applicable to the Company, but which the Company has not early adopted, are as follows:

IC Interpretation 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company will apply this standard from financial periods beginning on 1 January 2010.

The following standards will be effective for annual periods beginning on or after 1 January 2010. The Company will apply these standards from financial periods beginning on 1 January 2010. The Company has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the standard on the financial statements of the Company.

- FRS 139 Financial Instruments: Recognition and Measurement
- FRS 4 Insurance Contracts
- FRS 7 Financial Instruments: Disclosures

Standards, amendments to published standards and interpretations to existing standards that are not relevant to the Company and not yet effective

FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114_{2004} Segment Reporting. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes.

IC Interpretation 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 January 2010). IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will apply this standard from financial periods beginning on 1 January 2009.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combination under common control

The transfer of the insurance business from the holding company, as disclosed in Note 25, has been accounted for as a business combination under common control using the predecessor method of accounting. Under the predecessor method of accounting, the income statement includes the results of each of the combining entities from the date of the combination. The assets and liabilities of the combining entities are accounted for based on the carrying amounts from the perspective of the common controlling party or the combining entities if the common controlling party does not prepare consolidated financial statements. The excess of the cost of acquisition over the aggregate carrying amounts of assets and liabilities as of the date of the combination is taken to equity.

(c) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the revenue account and/or income statement during the year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the original assessed standard of performance of the existing asset will flow to the Company.

Property, plant and equipment are depreciated on the straight line basis to write off the cost of assets to their residual values over the estimated useful lives, summarised as follows:

Furniture and equipment	5 - 10 years
Computer equipment	2 - 3 years
Motor vehicles	5 years
Renovation	5 - 15 years

Residual values and useful lives of assets are revalued and adjusted, if applicable, at each balance sheet date.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(k) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the income statement and/or revenue account.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currencies

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement and/or revenue account.

All financial assets and liabilities as at balance sheet were denominated in Ringgit Malaysia unless otherwise indicated.

(e) Investments

Malaysian Government Securities, Cagamas papers and other unquoted approved debt securities as specified by BNM are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on a constant yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statement and/or revenue account.

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by each category of investments, except that where diminution in value of a particular investment is not regarded as temporary, specific allowance is made against the value of that investment. Market value is determined by reference to the stock exchange closing price at the date of the financial statement.

Unquoted investments are stated at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in value of such investments. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the financial year in which the decline is identified.

(f) Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits

(i) Short-term employees benefits
Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits
The Company's contributions to the Employees' Provident Fund, the national defined contribution plan, are charged to the income statement and/or revenue account in the financial period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Share-based compensation
The eligible employees of the Company participate in an equity-settled, share-based compensation plan offered by its ultimate holding company, American International Group Inc. Employee services received in exchange for the grant of the shares and share options are recognised as an expense in the income statement and/or revenue account over the vesting periods of the grant with a corresponding increase equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting condition (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement and/or revenue account, with a corresponding adjustment to equity.

There was no share-based compensation recognised during the financial period.

(h) Dividends to shareholders of the company

Dividends on ordinary shares are recognised as liabilities in the financial period in which they declared.

(i) Trade receivables

Trade receivables are carried at invoiced amount less an allowance made for doubtful debts.

Known bad debts are written off and specific allowance is made for any debt considered to be doubtful of collection. In addition, allowance is made for any premiums, including agents' balances or reinsurance balances, which remain outstanding for more than 6 months from the date on which they become receivable, except for outstanding motor premiums for which allowance is made for amounts outstanding for more than 30 days.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

. (j) Other revenue recognition

Interest income on loans is recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayments are in arrears for more than 6 months, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

Other interest income, including the amount of amortisation of premiums and accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

Dividend income is recognised when the right to receive payment is established.

Gains or losses arising on disposal of investments are credited or charged to the income statement and/or revenue account.

(k) Impairment of assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement and/or revenue account immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement and/or revenue account immediately.

(l) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement and/or revenue account on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurance, commissions, unearned premiums and claims incurred.

Premium income

Premium income is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the date of the statement of assets and liabilities are accrued at the date.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

Unearned premium reserves

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

In determining the UPR, the method that most accurately reflects the actual unearned premium is used. UPR is computed with reference to the month of accounting for the premium on the following bases:

(i) 25% method for annual marine cargo, aviation cargo and transit business;

(ii) 1/24th method for all other classes of general business in respect of annual Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and

(iii) time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM.

Provision for claims

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the date of the balance sheet.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported ("IBNR") at the date of the balance sheet, based on an actuarial valuation carried out by the Company's actuary, using a proper and consistent method of estimation based on properly collated claims statistics.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) General insurance underwriting results (continued)

Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the financial periods in which it is probable they give rise to income.

(n) Income taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the statement of assets and liabilities date are used to determine deferred tax.

(o) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(p) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Financial instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instruments. The accounting policies on recognition and measurement of these items are disclosed in the individual accounting policies notes associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as finance cost or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The Company's basis of estimation of fair value for financial instruments is as follows:

Component	Method of determining fair values
(i) Malaysian Government Securities	Indicative market prices
(ii) Unquoted corporate debt securities brokers	Price quoted by pricing agencies and brokers
(iii) Quoted equity securities	Quoted market prices
(iv) Loans receivables	Discounted future cash flows based on the contracted maturity period. Discount rates are based on current market interest rates.
(v) Other financial asstes and liabilities with a maturity period of less than one year	Carrying values assumed to approximate their fair value

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual result. The estimated and assumptions that have a significant risk of causing a material judgement to the carrying amounts of assets and liabilities within the financial year are outlined below.

Incurred But Not Reported Claims

Incurred But Not Reported ("IBNR") claims for each class of business are estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

3.2 Critical judgements in applying the entity accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported result and financial position of the Company. However the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

4. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment RM	Computer equipment RM	Motor vehicles RM	Renovation RM	Total RM
Financial period 31 December 2008					
Transfer of business from the holding company (Note 25)	3,401,130	136,532	272,219	5,350,222	9,160,103
Additions at cost	3,018,900	-	-	2,389,787	5,408,687
Depreciation charge	(550,532)	(63,280)	(25,541)	(527,772)	(1,167,125)
Net book value at 31 December 2008	5,869,498	73,252	246,678	7,212,237	13,401,665
At 31 December 2008					
Cost	10,260,962	1,975,876	470,348	10,640,338	23,347,524
Accumulated depreciation	(4,391,464)	(1,902,624)	(223,670)	(3,428,101)	(9,945,859)
Net book value	5,869,498	73,252	246,678	7,212,237	13,401,665

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

5. INTANGIBLE ASSETS

Financial period 31 December	2008 RM
Transfer of business from the holding company (Note 25)	224,446
Amortisation charges	(62,587)
Net book value at 31 December 2008	161,859
At 31 December 2008	
Cost	498,752
Accumulated amortisation	(336,893)
	161,859

6. INVESTMENTS

	Carrying value RM	2008 Market value RM
Malaysian Government Securities, at cost	269,659,800	
Amortisation of premiums - net	(1,780,022)	
	267,879,778	275,733,168
Cagamas papers, at cost	69,249,250	
Accretion of discount - net	53,339	
	69,302,589	70,803,107
Quoted:		
Equity securities of corporations:		
Quoted in Malaysia, at cost	7,027,174	
Allowance for diminution in value	(867,316)	
	6,159,858	6,159,858
Real estate investment trust, at cost	2,284,878	
Allowance for diminution in value	(333,494)	
	1,951,384	1,951,384

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

6. INVESTMENTS (CONTINUED)

		2008
	Carrying value RM	Market value RM
Unquoted:		
Corporate debt securities, at cost	177,574,100	
Amortisation of premium – net	(3,280,174)	
	174,293,926	
Other investments	220,000	
Fixed deposits with licensed banks	207,881,521	
Total investments	727,689,056	

The maturity structure of Malaysian Government Securities, Cagamas papers, corporate debt securities and fixed deposits above is as follows:

	2008 Carrying value RM
Investments maturing within 12 months	106,235,863
Investments maturing after 12 months	613,121,951
	719,357,814

7. LOANS

	2008 RM
Secured staff loans	4,584,139
Allowance for doubtful debts	(509,310)
	4,074,829
Receivable within 12 months	662,229
Receivable after 12 months	3,412,600
	4,074,829

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

8. RECEIVABLES

	2008 RM
Trade receivables	
Due premiums including agents, brokers and co-insurers balances	61,661,474
Allowance for doubtful debts	(11,320,109)
	50,341,365
Due from reinsurers and cedants	11,046,357
Allowance for doubtful debts	(3,601,135)
	7,445,222
	57,786,587
Other receivables	
Interest income due and accrued	7,351,204
Assets held under Malaysian Motor Insurance Pool	2,856,501
Other receivables, deposits and prepayments	2,429,268
Amount due from related corporations (Note 22)	1,252,567
	13,889,540
	71,676,127

The amount due from related corporations is unsecured, interest-free and has no fixed terms of repayment. The currency exposure of the amount due from related corporations is set out below:

	2008 RM
Ringgit Malaysia	(437,536)
United States Dollar	1,690,103
	1,252,567

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

9. DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2008 **RM**
Subject to income tax:	
Deferred tax assets	5,311,817
Transfer of business from the holding company (Note 25)	3,925,680
(Charged) / credited to income statement (Note 17):	
- property, plant and equipment	(20,464)
- investments	892,300
- trade receivables	404,268
- unearned premium reserves	110,033
	1,386,137
At 31 December	5,311,817
Subject to income tax:	
Deferred tax assets (before offsetting)	
Investments	1,551,916
Trade receivables	3,365,088
Unearned premium reserves	816,671
	5,733,675
Offsetting	(421,858)
Deferred tax assets (after offsetting)	5,311,817
Deferred tax liabilities (before offsetting)	
Property, plant and equipment	421,858
	421,858
Offsetting	(421,858)
Deferred tax liabilities (after offsetting)	-

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

10. PROVISION FOR OUTSTANDING CLAIMS

	2008 RM
Provision for outstanding claims	319,343,857
Recoverable from reinsurers	(69,380,269)
Net outstanding claims	249,963,588

11. PAYABLES

Trade payables	
Due to agents, brokers, co-insurers and insureds	32,762,675
Due to reinsurers and cedants	24,051,657
	56,814,332
Other payables	
Payroll liabilities	2,132,179
Service tax and stamp duty payable	812,541
Accrual for Insurance Guarantee Scheme Fund levy	1,109,914
Accrued expenses	14,688,102
Amount due to holding company	2,145,851
Other payables	856,341
	21,744,928
	78,559,260

The amount due to holding company is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

12. UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
2008					
Short term					
Transfer of business from the holding company (Note 25)	34,430,602	67,978,269	2,973,277	56,242,889	161,625,037
Decrease in reserves	(2,924,353)	(769,438)	(703,545)	(4,396,877)	(8,794,213)
At 31 December 2008	31,506,249	67,208,831	2,269,732	51,846,012	152,830,824
Long term					
Transfer of business from the holding company (Note 25)	-	-	1,049,322	13,625,029	14,674,351
Increase/(decrease) in reserves	-	-	491,161	(607,250)	(116,089)
At 31 December 2008	-	-	1,540,483	13,017,779	14,558,262
Total	31,506,249	67,208,831	3,810,215	64,863,791	167,389,086

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

13. SHARE CAPITAL

	2008 RM
Authorised share capital	
At date of incorporation / 31 December	500,000,000
Issued share capital	
At date of incorporation	2
Issued during the financial period	310,799,998
At 31 December	310,800,000

On 1 June 2008, the Company allotted and issued 99,999,998 new ordinary shares of RM1.00 each at par value as part of the consideration for the acquisition of business from the holding company to meet the minimum issued and paid-up share capital of RM100,000,000 as required under Section 18 of the Insurance Act 1996.

On 26 June 2008, the Company allotted and issued 210,800,000 new ordinary shares of RM1.00 each at par value as the remaining consideration for the acquisition of business from the holding company.

The new ordinary shares issued during the period ranked pari passu in all respects with the existing ordinary shares of the Company.

14. OPERATING REVENUE

	2008 RM
Gross premium	269,722,266
Investment income (Note 15)	19,325,724
	289,047,990

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

15. INVESTMENT INCOME

	2008 RM
General fund	
Interest from:	
Fixed deposits	6,126,796
Malaysian Government securities	6,230,549
Cagamas papers	1,598,479
Unquoted corporate debt securities	5,565,669
Secured loans	136,478
Amortisation of premiums, net of accretion of discounts	(592,937)
Gross dividends from quoted equity securities in Malaysia	260,690
	19,325,724

16. OTHER OPERATING INCOME - NET

General fund	
Gain on disposal of property, plant and equipment	800
Gain on disposal of investments	87,654
Foreign exchange gain - realised	1,908,015
Foreign exchange gain - unrealised	184,843
Sundry income	299,971
Allowance for diminution in value of investments	(1,200,810)
	1,280,473

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

17. TAXATION

	2008 RM
Current financial period	14,546,470
Deferred tax - origination and reversal of temporary differences (Note 9)	(1,386,137)
Tax expense	13,160,333

The explanation of the relationship between tax expense and profit before taxation is as follows:

	2008 RM
Profit before taxation	49,579,787
Tax calculated at the Malaysian tax rate of 26%	12,890,745
Tax effects of expenses not deductible for tax purposes	317,647
Tax effects of income not taxable for tax purpose	(48,059)
Tax expense	13,160,333

18. EARNINGS PER SHARE

The earnings per ordinary share have been calculated based on the net profit for the financial period of RM36,419,454 and the weighted average number of ordinary shares in issue during the financial period of 162,542,858.

	2008
Earnings per share	22 sen

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

19. NET CLAIMS INCURRED

2008	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
Gross claims paid less salvage	15,687,203	62,926,196	1,349,306	30,719,675	110,682,380
Reinsurance recoveries	(23,114,958)	(2,589,585)	(1,892,299)	(38,558,938)	(66,155,780)
Net claims paid	(7,427,755)	60,336,611	(542,993)	(7,839,263)	44,526,600
Net outstanding claims:					
At 31 December 2008	39,071,316	105,371,942	1,757,765	103,762,565	249,963,588
Transfer of business from the holding company (Note 25)	(17,496,037)	(101,652,846)	(1,848,042)	(80,083,569)	(201,080,494)
Net claims incurred	14,147,524	64,055,707	(633,270)	15,839,733	93,409,694

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

20. MANAGEMENT EXPENSES

	2008 RM
General fund	
Staff salaries and bonus	18,385,879
Employees' Provident Fund	2,656,730
Staff benefits	1,258,846
Staff costs	22,301,455
Auditors' remuneration:	
Statutory audit	175,000
Fees for other services	1,985
Director's remuneration:	
Non-executive	119,838
Professional fees	200,000
Travelling expenses	672,278
Motor vehicle expenses	810,712
Legal expenses	124,519
Advertising	2,878,419
Printing and stationery	1,832,762
Rent and rates	2,872,411
Electricity and water	407,932
Postage, telephone, telex and telefax	7,334,537
Office maintenance	509,070
Entertainment	601,994
Depreciation of property, plant and equipment	1,167,125
Amortisation of intangible assets	62,587
Training expenses	1,861,881
Insurance Guarantee Scheme Fund levy	499,967
EDP expenses	5,577,751
Bad debts written off	29,498
Bad debts recovered	(53,559)
Increase in allowance for doubtful debts	1,966,096
Other expenses	6,319,533
	58,273,791

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial period amounted to RM224,186.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

20. MANAGEMENT EXPENSES (CONTINUED)

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. The compensation of the key management personnel including the Chief Executive Officer is as follows:

	2008 **RM**
Salary, bonus and benefits	2,429,242
Employees' Provident Fund	294,495
Benefits-in-kind	270,370
	2,994,107

The aggregate amount of emolument receivable by Directors of the Company during the financial period is as follows:

	2008 **RM**
Non-executive Directors:	
- fees	117,838
- other allowance	2,000
	119,838
Executive Directors:	
- salaries and bonus	465,560
- estimate money value of benefits-in-kind	145,345
- employees' provident fund	53,042
- other employee benefits	61,467
	725,414
	845,252

21. CASH FLOW SEGMENT INFORMATION

	2008 **RM**
Cash flows from:	
Operating activities	9,925,680
Investing activities	6,891,983
Net increase in cash and cash equivalents	16,817,663
Cash and cash equivalents:	
At date of incorporation	2
At 31 December 2008	16,817,665

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

22. RELATED PARTY DISCLOSURES

The related parties of, and their relation with the Company, are as follows:

Company	Country of incorporation	Relationship
American International Group, Inc.	State of New York	Ultimate holding company
American Home Assurance Company	State of New York	Immediate holding company

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with the ultimate holding company and other related corporations deemed related parties by virtue of them being members of American International Group, Inc. group of companies ("AIG Group"), conducted on terms that are comparable to normal commercial terms as specified under BNM Guidelines JPI/GPI 19 Related-Party Transactions and JPI/GPI 25 (Consolidated) Prudential Framework of Corporate Governance for Insurers.

(a) Details of significant related party during the financial period between the Company and AIG Group are as follows:

	2008 RM
Premiums received	562,155
Inward reinsurance premiums received	716,197
Reinsurance premiums ceded	(62,862,634)
Reinsurance claims recoveries	9,635,046
Proceeds for commutation of run-off business	136,300,000
Payment for reinsurance arrangement of run-off business	(80,294,000)
Commission paid	(138,725)
Commissions earned	8,892,663
Rental and utilities paid to a related corporation	(2,544,468)
System related costs paid to related corporations	(2,015,968)
Personnel and related costs received from a related Corporation	535,440
Claims handling fee received from related corporations	354,875
Professional fee	200,000

(b) The related party balances as at the date of the balance sheet are included in the following notes to the financial statements:

	2008 RM
Receivables (Note 8)	
Due from reinsurers and cedants	4,352,019
Allowances for doubtful debts	(1,344,079)
	3,007,940
Amount due from related corporations	1,252,567
Payables (Note 11)	
Due to reinsurers and cedants	3,051,103
Amount due to holding company	2,145,851

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

23. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Investment risk

Generally, insurance regulations restrict the types of assets in which an insurance company may invest. Investment risk represents the exposure to loss resulting from the cash flows from the invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary returns on investments.

The Company makes moderate to long-term investments primarily in Malaysian Government Securities and investment graded corporate bonds to support the general insurance policy liabilities.

To minimise its exposure to investment risk, the Company adopts fundamental research and active management to seek a balanced portfolio to meet the investment objectives for income, security of principal and diversification in terms of size, issuers and types of industry.

Equity price risk

The Company currently maintains low exposure to listed equity securities at less than 10% of its total portfolio to limit its equity price risk.

Interest rate risk

The Company's investment activities are inherently exposed to interest rate risk which arises principally from differences in maturity or re-pricing of invested assets. In dealing with this risk, the Company adopts an approach of focusing on achieving a desired overall interest rate profile, which may change over time, based on management's longer term view of interest rates and economic conditions.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial liabilities when due. The Company's liquidity is primarily derived from the operating cash flows which are derived from two sources i.e. underwriting operations and investment operations.

The Company's strong capital position is integral to managing this liquidity. Directors believe that the Company's liquid assets and, its net cash provided by operations will enable it to meet any foreseeable cash requirements.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Business and operational risk

Operational risks include legal, tax, political, regulatory, market conduct and business continuity risks.

These risks arise from the uncertainty of the enforceability through legal or judicial processes, of the obligations of the Company's clients and counterparts. Internal Audit, supported by Legal and Compliance departments, review the effectiveness of internal controls on a regular basis.

Underwriting and credit risk

AIU Insurance Company ("AIUI"), a wholly-owned subsidiary of AIG, Inc., which acts as the Company's immediate reinsurer for most of the Company's treaty reinsurance contracts, is a major purchaser of reinsurance. AIUI is cognisant of the need to exercise good judgement in the selection and approval of companies participating in its reinsurance programs.

AIUI's Reinsurance Security department, consisting of members of AIUI's senior management, conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed, and has sufficient financial capacity, and the local economic environment. This department also reviews the nature of the risks ceded and the need for collateral. In addition, AIUI's Credit Risk Committee reviews the credit limits and concentrations with any one reinsurer. No single reinsurer is a material reinsurer on AIUI nor is AIUI's business substantially dependent upon any reinsurance contract. In this respect, the Company relies on AIUI's technical support in assessing the Company's treaty reinsurance arrangements.

In the ordinary course of business, the Company also cedes reinsurance to other insurance companies in order to provide greater diversification of its business and limit the potential losses arising from large risks.

The Company's reinsurance arrangements do not relieve it from its direct obligations to its insureds. Thus, a credit exposure exists with respect to general reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates

The following table summarises the composition of the Company's weighted average effective interest rate and the maturity date for each class of interest-bearing financial instrument in the balance sheet:

2008	Non-interest Bearing RM	Interest-bearing: Contractual repricing or maturity date (whichever is earlier) 1 year or less RM	1 to 2 years RM	2 to 3 years RM	3 to 4 years RM	4 to 5 years RM	More than 5 years RM	Total carrying value RM	Weighted average effective interest rate per annum
Financial assets:									
Investments									
- Malaysian Government Securities	-	65,210,302	15,033,768	108,263,849	-	24,938,898	54,432,961	267,879,778	3.98%
- Cagamas papers	-	-	-	-	-	-	69,302,589	69,302,589	5.17%
- Corporate debt Securities	-	-	20,131,362	41,657,573	3,024,884	12,180,515	97,299,592	174,293,926	5.21%
- Equity securities of corporations	6,159,858	-	-	-	-	-	-	6,159,858	
- Real estate investment trust	1,951,384	-	-	-	-	-	-	1,951,384	
- Fixed deposits	-	41,025,561	1,855,960	-	25,000,000	50,000,000	90,000,000	207,881,521	4.81%
- Other Investments	220,000	-	-	-	-	-	-	220,000	
Unsecured staff loans	31,880	637,804	572,754	448,470	399,365	336,622	1,647,934	4,074,829	4.90%
Other receivables	10,840,546	-	-	-	-	-	-	10,840,546	
Cash and bank balances	16,817,665	-	-	-	-	-	-	16,817,665	
Total financial assets	36,021,333	106,873,667	37,593,844	150,369,892	28,424,249	87,456,035	312,683,076	759,422,096	
Other financial assets*								57,786,587	
Total financial assets								817,208,683	
Non-financial assets:									
Property, plant and equipment								13,401,665	

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates (Continued)

		Interest-bearing: Contractual repricing or maturity date (whichever is earlier)						
	Non-interest Bearing RM	1 year or less RM	1 to 2 years RM	2 to 3 years RM	3 to 4 years RM	4 to 5 years RM	More than 5 years RM	Total carrying Value RM
Intangible assets								161,859
Deferred tax assets								5,311,817
Assets held under Malaysian Motor Insurance Pool								2,856,501
Other receivables								192,493
Tax recoverable								3,998,370
Total assets								843,131,388
Financial liabilities:	21,744,928	-	-	-	-	-	-	21,744,928
Other financial liabilities*								474,167,006
Total liabilities								495,911,934

(* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts is not shown as it is excluded from the scope of FRS 132 “Financial Instruments: Disclosure and Presentation”.)

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

23. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The carrying values of financial assets and liabilities of the Company as at 31 December 2008 approximated their fair values, except for the following:

	Carrying values 2008 RM	Fair values 2008 RM
Investments:		
- Malaysian Government Securities	267,879,778	275,733,168
- Cagamas papers	69,302,589	70,803,107
- Unquoted debt securities	174,293,926	178,514,406
Loans:		
- Secured staff loan **	4,074,829	3,088,875

** The carrying amount of the secured staff loan of the Company was not reduced to its estimated fair value as the loan was staff loan to the employees of the Company and the Directors are of the opinion that the amount will be repaid in full on the due date.

Credit risk

	2008 RM
Rating of corporate debt securities on market value basis	
AAA	63,074,524
AA	78,612,805
A	7,728,409
Not rated **	29,098,668
	178,514,406

The rating categories are based on the grading of reputable rating agencies.

** Non rated securities are government guaranteed securities.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2008 (CONTINUED)

24. COMMITMENTS

Non-cancellable operating lease commitments

As at the balance sheet date, the Company has rental commitments under non-cancellable operating leases:

	Future minimum lease payments 2008 RM
General fund	
Not later than 1 year	5,683,690
Later than 1 year and not later than 5 years	6,305,349
	11,989,039

25. SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

(a) Transfer of business from holding company

In 2007, the holding company, American Home Assurance Company ("AHA") had applied to Bank Negara Malaysia ("BNM") to localise its Malaysian Branch ("AHAM") to a locally incorporated public company pursuant to Sections 14 and 217(b) of the Insurance Act 1996, which require all branches of foreign insurers, other than professional re-insurers, to transfer their property, business, and liabilities to a public company incorporated under the Companies Act 1965 in so far as they relate to their insurance business in Malaysia.

A locally incorporated company, AIG General Insurance (Malaysia) Berhad ("the Company"), was then incorporated on 13 November 2007. On 13 February 2008, the Company entered into a conditional sale of business agreement with AHA, the holding company, to transfer the entire General Insurance Business ("the Business") of AHAM to the Company, as a going concern, based on the net book value ("NBV") of AHAM's net assets as at the completion date. The transfer of business was approved by BNM, Securities Commission and the Minister of Finance.

On 1 June 2008, the Business was transferred to the Company at the NBV of AHAM's net assets as at 31 May 2008. On the same day, the Company obtained its general insurance licence and commenced its general insurance business.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

25. SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD (CONTINUED)

(b) Basis of transfer

As the transfer of business is driven by regulatory reason and does not result in bringing separate businesses into one reporting entity, it does not meet the definition of a business combination under FRS 3 Business Combination. Therefore, the transfer of business is regarded as an internal reorganisation.

Since there is no specific guidance in FRS for internal reorganisation transactions, as such, the transfer of business from the holding company has been accounted for as a business combination under common control using the predecessor method of accounting.

The predecessor method of accounting requires the financial statements to be prepared using predecessor's, i.e book values without any step up to fair value. The difference between any consideration given and the aggregate book value of the assets and liabilities (as of the date of transaction) of the acquired entity is recorded as an adjustment to equity. No goodwill is created by the transaction.

The business transfer consideration was satisfied by the issuance of 310,800,000 new ordinary shares of RM1.00 each at par and amount payable to holding company of RM 2,415,851.

The assets and liabilities arising from the business transfer are as follows:

	RM
Property, plant and equipment (Note 4)	9,160,103
Intangible assets (Note 5)	224,446
Loans	4,690,505
Investments	449,989,861
Fixed deposits/money market	202,093,735
Cash and bank balances	12,299,870
Receivables	79,539,589
Deferred tax assets (Note 9)	3,925,680
Current tax assets	14,969,170
Provision for outstanding claims (Note 19)	(201,080,494)
Payables	(86,297,228)
Unearned premium reserves (Note 12)	(176,299,388)
	313,215,849
Purchase consideration:	
- 310,800,000 new ordinary shares of RM 1.00 each of the Company issued at par	310,799,998
- Amount payable to holding company	2,415,851
	313,215,849
The cash inflow on the business transfer is as follows:	
Cash and cash equivalents of business acquired	12,299,870

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2008 (CONTINUED)

26. COMPARATIVE FIGURES

No comparative figures are presented as this is the first set of statutory financial statements of the Company since its incorporation.